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**BEAR RIVER WATER  
CONSERVANCY DISTRICT**

**Audited Financial Statements**

**December 31, 2006 and 2005**

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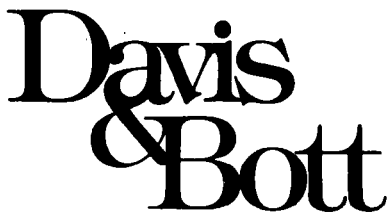
**Davis  
& Bott**

Certified Public Accountants, L.C.  
547 South Main  
P.O. Box 369  
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435-723-5224

BEAR RIVER WATER CONSERVANCY DISTRICT  
DECEMBER 31, 2006 AND 2005

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## INDEPENDENT AUDITORS' REPORT

Certified Public Accountants, L.C.

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435-723-5224

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Tremonton, Utah 84337  
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Board of Trustees  
Bear River Water Conservancy District  
Brigham City, UT 84302

We have audited the accompanying financial statements of the Bear River Water Conservancy District (District), as of and for the years ended December 31, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

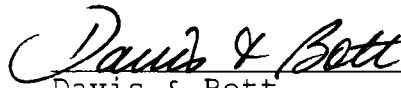
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2006 and 2005, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Bear River Water Conservancy District  
Independent Auditors' Report  
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2007, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, as listed in the table of contents, is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. The impact fee worksheet is supplementary information required by the state of Utah. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



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Davis & Bott  
Certified Public Accountants, L.C.

Brigham City, Utah  
March 22, 2007

**BEAR RIVER WATER CONSERVANCY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2006 AND 2005**

The following is a discussion and analysis of Bear River Water Conservancy District's financial performance providing an overview of the District's financial activities for the years ended December 31, 2006 and 2005. Please read it in conjunction with the District's financial statements following this section.

**FINANCIAL HIGHLIGHTS**

- A. The assets of the District exceeded its liabilities as of December 31, 2006, by \$2,966,161.
- B. The District's total net assets increased by \$193,012 at December 31, 2006.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The District's financial statements are prepared on the accrual basis of accounting. The District reports as a single enterprise fund. Revenues are recognized when earned and expenses are recognized in the period in which they are incurred. See the notes to the financial statements for a summary of the District's significant accounting principles.

The discussion and analysis is intended to serve as an introduction to the District's financial statements and notes to the financial statements.

***Fund financial statements.*** A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District reports as a single proprietary fund.

***Proprietary funds.*** The District uses an enterprise fund to account for operations financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

*See Independent Auditors' Report*

**BEAR RIVER WATER CONSERVANCY DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)**  
**DECEMBER 31, 2006 AND 2005**

*Notes to the financial statements.* The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes are part of the financial statements.

**FINANCIAL STATEMENT ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$2,966,161 at the close of the fiscal year ended December 31, 2006.

**BEAR RIVER WATER CONSERVANCY DISTRICT'S NET ASSETS**

	December 31		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>			
Current and other assets	\$ 616,439	\$ 724,814	\$ 814,872
Restricted assets	294,207	268,837	252,250
Capital assets	<u>4,996,082</u>	<u>4,883,104</u>	<u>4,676,099</u>
Total assets, net	5,906,728	5,876,755	5,743,221
<b>LIABILITIES</b>			
Other liabilities	172,677	198,606	195,439
Long-term obligations less current maturities	<u>2,767,890</u>	<u>2,905,000</u>	<u>3,040,000</u>
Total liabilities	2,940,567	3,103,606	3,235,439
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	2,080,974	1,832,593	1,492,184
Restricted	294,207	268,837	252,370
Unrestricted	<u>590,980</u>	<u>671,719</u>	<u>763,228</u>
Total net assets	<u>\$ 2,966,161</u>	<u>\$ 2,773,149</u>	<u>\$ 2,507,782</u>

The largest portion of the District's net assets (70 percent) reflected its investment in capital assets (e.g. land, buildings, water systems, equipment and water rights) less any related debt used to acquire those assets that is still outstanding.

*See Independent Auditors' Report*

**BEAR RIVER WATER CONSERVANCY DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)**  
**DECEMBER 31, 2006 AND 2005**

Of the remaining balance, the unrestricted net assets of \$590,980 may be used to meet the District's obligations to customers, member agencies, employees and creditors.

**BEAR RIVER WATER CONSERVANCY DISTRICT'S CHANGES IN NET ASSETS**

	December 31		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues:			
Program revenues:			
Charges for services	\$ 225,385	\$ 212,440	\$ 197,368
General revenues:			
General property tax	460,028	391,606	379,593
Other	<u>56,250</u>	<u>63,135</u>	<u>91,075</u>
Total revenues	<u>741,663</u>	<u>667,181</u>	<u>668,036</u>
Expenses:			
Water utility	508,125	418,999	396,888
Nonoperating expenses:			
Interest	32,462	33,906	35,327
Trustee fees	5,900	5,978	5,510
Grant expense	<u>27,904</u>	<u>45,931</u>	<u>29,227</u>
Total expenses	<u>574,391</u>	<u>504,814</u>	<u>466,952</u>
Excess (deficiency) before contributions	167,272	162,367	201,084
Contributions	<u>25,740</u>	<u>103,000</u>	<u>129,000</u>
Increase (decrease) in net assets	193,012	265,367	330,084
Net assets beginning of year	<u>2,773,149</u>	<u>2,507,782</u>	<u>2,177,698</u>
Net assets end of year	<u>\$ 2,966,161</u>	<u>\$ 2,773,149</u>	<u>\$ 2,507,782</u>

*See Independent Auditors' Report*

**BEAR RIVER WATER CONSERVANCY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
DECEMBER 31, 2006 AND 2005**

The District's net assets increased by \$193,012. Key elements of this increase are as follows:

- A. Charges for services increased by \$12,945.
- B. Property tax revenues increased by \$68,422. This is principally the result of an increase in the District's property tax levy from 0.0161 percent to 0.0200 percent.
- C. Late in 2005, the District enacted an impact fee. During 2006, impact fees were received in the amount of \$25,740.

**CAPITAL ASSETS**

The District's investment in capital assets for its proprietary fund activities amounted to \$4,966,082 (net of accumulated depreciation) at December 31, 2006. The investment in capital assets includes buildings, equipment, improvements, land and work in progress. The total increase in the District's investment in capital assets for the fiscal year ended December 31, 2006, was \$112,978.

**BEAR RIVER WATER CONSERVANCY DISTRICT'S CAPITAL ASSETS**

	<u>2006</u>	<u>2005</u>
Buildings	\$ 278,999	\$ 281,662
Improvements	3,295,285	3,373,800
Land	901,400	901,400
Work in progress	<u>520,398</u>	<u>326,242</u>
Net capital assets	<u>\$ 4,996,082</u>	<u>\$ 4,883,104</u>

Additional information on the District's capital assets can be found in Note 3 on page 19 of this report.

*See Independent Auditors' Report*



**BEAR RIVER WATER CONSERVANCY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)  
DECEMBER 31, 2006 AND 2005**

**LONG-TERM DEBT**

At December 31, 2006, the District had total debt outstanding of \$2,905,000 in revenue bonds.

**BEAR RIVER WATER CONSERVANCY DISTRICT'S OUTSTANDING DEBT**

	<u>2006</u>	<u>2005</u>
Revenue bonds	\$ <u>2,905,000</u>	\$ <u>3,040,000</u>
Total	\$ <u>2,905,000</u>	\$ <u>3,040,000</u>

The District obtained the bonds through the State of Utah Division of Drinking Water and the State of Utah Water Resources Board.

Additional information on the District's long-term debt can be found in the notes to the financial statements.

**EXPECTED CHANGES IN FINANCIAL POSITION**

The District expects to issue a bond from the Division of Drinking Water in the latter half of 2007 to complete the South Willard Culinary Water System Project. The bond proceeds will be used mainly for the construction of a 500,000 gallon water tank, pump station and distribution line. The District is also working on a pumping system retrofit for the pump house in Bothwell. Retail connections from the developments in Bothwell and Harper Ward continue to bring in impact revenues to show continual growth on a slightly upward trend. Management of the Bear River Water Conservancy District is confident the District will continue to be financially viable.

**REQUESTS FOR INFORMATION**

This financial report is designed to give its readers a general overview of the Bear River Water Conservancy District's finances. Questions regarding any information contained in this report or requests for additional information should be addressed to the General Manager, 102 West Forest, Brigham City, Utah 84302.

*See Independent Auditors' Report*

**BEAR RIVER WATER CONSERVANCY DISTRICT**  
**STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets:		
Cash and investments	\$ 395,002	\$ 542,188
Accounts receivable	73,963	60,466
Property taxes receivable	145,098	120,249
Prepaid insurance & advances	<u>2,377</u>	<u>1,911</u>
Total current assets	<u>616,439</u>	<u>724,814</u>
Noncurrent assets:		
Restricted cash and cash equivalents	294,207	268,837
Capital assets, net of accumulated depreciation:		
Land and water rights	901,400	901,400
Buildings	278,999	281,662
Water systems	3,295,285	3,373,800
Work in process	<u>520,398</u>	<u>326,242</u>
Total capital assets	<u>4,996,082</u>	<u>4,883,104</u>
Total noncurrent assets	<u>5,290,289</u>	<u>5,151,941</u>
Total assets	<u>5,906,728</u>	<u>5,876,755</u>

*The accompanying notes are an integral part of these statements.*

BEAR RIVER WATER CONSERVANCY DISTRICT  
STATEMENT OF NET ASSETS (Continued)  
DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 12,761	\$ 35,637
Interest payable	10,108	10,511
Current portion of long-term debt	143,000	135,000
Other current liabilities	<u>6,808</u>	<u>17,458</u>
Total current liabilities	<u>172,677</u>	<u>198,606</u>
Long-term liabilities:		
Deferred vacation payable	5,890	-
Revenue bonds payable	<u>2,762,000</u>	<u>2,905,000</u>
Total long-term liabilities	<u>2,767,890</u>	<u>2,905,000</u>
Total liabilities	<u>2,940,567</u>	<u>3,103,606</u>
NET ASSETS		
Investment in capital assets, net of related debt	2,080,974	1,832,593
Restricted	294,207	268,837
Unrestricted	<u>590,980</u>	<u>671,719</u>
Total net assets	<u>\$ 2,966,161</u>	<u>\$ 2,773,149</u>

*The accompanying notes are an integral part of these statements.*

**BEAR RIVER WATER CONSERVANCY DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Charges for services	\$ 225,385	\$ 212,440
Total operating revenues	<u>225,385</u>	<u>212,440</u>
Operating expenses:		
Wages and benefits	175,313	114,670
Materials, supplies and utilities	124,411	106,094
Depreciation	107,100	102,385
Miscellaneous	101,302	95,850
Total operating expenses	<u>508,125</u>	<u>418,999</u>
Operating loss	(282,740)	(206,559)
Nonoperating revenues (expenses):		
Grant revenue	13,688	32,273
Weather modification expense	(27,904)	(45,931)
Property taxes	460,028	391,606
Interest income	34,726	26,878
Interest expense	(32,462)	(33,906)
Trustee fees	(5,900)	(5,978)
Other nonoperating revenue	7,835	1,124
Impact fees	<u>-</u>	<u>2,860</u>
Total nonoperating revenues	<u>450,012</u>	<u>368,926</u>
Net income before contributions	167,272	162,367
Impact fees	<u>25,740</u>	<u>103,000</u>
Change in net assets	193,012	265,367
Total net assets beginning of year	<u>2,773,149</u>	<u>2,507,782</u>
Total net assets end of year	<u>\$ 2,966,161</u>	<u>\$ 2,773,149</u>

*The accompanying notes are an integral part of these statements.*

**BEAR RIVER WATER CONSERVANCY DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Receipts from customers	\$ 190,075	\$ 238,041
Other operating cash receipts	18,397	18,397
Payments to vendors	(249,084)	(209,951)
Payments to employees	<u>(166,564)</u>	<u>(110,710)</u>
Net cash provided by (used in) operating activities	<u>(207,176)</u>	<u>(64,223)</u>
Cash flows from noncapital financing activities:		
Property tax revenue	435,180	367,562
Grant revenue	17,104	22,166
Weather modification expenses	(41,383)	(27,274)
Other revenue net of expenses	<u>1,935</u>	<u>(4,856)</u>
Net cash provided by (used in) noncapital and related financing activities	<u>412,836</u>	<u>357,598</u>
Cash flows from capital and related financing activities:		
Principal paid on revenue bonds and other contracts	(135,000)	(133,000)
Acquisition and construction of capital assets	(220,079)	(219,889)
Interest paid on revenue bonds and other contracts	(32,865)	(34,310)
Contributed capital	-	16,360
Impact fees	<u>25,740</u>	<u>-</u>
Net cash provided by (used in) capital and related financing activities	<u>(362,204)</u>	<u>(370,839)</u>

*The accompanying notes are an integral part of these statements.*

**BEAR RIVER WATER CONSERVANCY DISTRICT**  
**STATEMENT OF CASH FLOWS (Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
Cash flows from investing activities:		
Interest earnings	\$ <u>34,726</u>	\$ <u>26,878</u>
Net cash provided by (used in) investing activities	<u>34,726</u>	<u>26,878</u>
Net increase (decrease) in cash and cash equivalents	(121,817)	(50,586)
Balance beginning of year	<u>811,025</u>	<u>861,609</u>
Balance end of year	<u>\$ 689,208</u>	<u>\$ 811,025</u>
Cash and cash equivalents recorded in the accompanying balance sheets:		
Unrestricted	\$ 395,002	\$ 542,188
Restricted	<u>294,207</u>	<u>268,837</u>
Total	<u>\$ 689,209</u>	<u>\$ 811,025</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (282,740)	\$ (206,559)
Adjustments to reconcile operating income(loss) to net cash provided by (used in) operating activities:		
Depreciation expense	107,100	102,385
Change in assets and liabilities:		
Receivables, net	(16,912)	43,999
Prepaid assets	(467)	(143)
Accounts and other payables	<u>(14,157)</u>	<u>(3,904)</u>
Net cash provided by (used in) operating activities	<u>\$ (207,176)</u>	<u>\$ (64,222)</u>
Noncash investing, capital and financing activities:		
Donation of fixed assets	<u>\$ -</u>	<u>\$ 89,500</u>

*The accompanying notes are an integral part of these statements.*

**BEAR RIVER WATER CONSERVANCY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006 AND 2005**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Box Elder County Commissioners, recognizing that limited water resources could be a major detriment to continued prosperity and growth in Box Elder County, supported the creation of the Bear River Water Conservancy District in 1988. The Board membership consists of municipal, irrigation and representatives from throughout the county. The District's main objective is to help ensure an adequate water supply for the county.

**A. REPORTING ENTITY**

In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no component units that should be included.

The accounting and reporting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The District develops, purchases, treats and sells water to retail and wholesale customers and operates in no other industry. The following is a summary of the more significant of such policies:

Presentation - The District has adopted the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Disclosures*.

*See Independent Auditors' Report*

**BEAR RIVER WATER CONSERVANCY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2006 AND 2005**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

These statements require governmental entities with more than one governmental activity to present additional accrual-based statements to better communicate the financial status of the entity.

The significant changes to the District's financial statements resulting from the adoption of these statements are the Management's Discussion and Analysis and the titles and presentation of the financial statements to conform to the net asset presentation. Certain balances have been restated, including the District's net assets, to conform to GASB Statement No. 34 presentation.

The District reports its water production, storage and distribution operations as a proprietary fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of accounting - The District is an enterprise fund and its records are maintained on the accrual basis of accounting. The District elected to follow all Governmental Accounting Standards Board (GASB) pronouncements and all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, except those that conflict with a GASB pronouncement, in accordance with GASB Statement No. 20.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

*See Independent Auditors' Report*



**BEAR RIVER WATER CONSERVANCY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2006 AND 2005**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Management estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**B. BUDGETS AND BUDGETARY ACCOUNTING**

The District follows the budget and budgetary accounting procedures established by Utah law and described in the Uniform Accounting Manual for Utah Special Districts.

**C. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment acquired are capitalized and stated at cost. This includes any infrastructure assets.

Depreciation of fixed assets is charged as an expense against operations, and accumulated depreciation is reported on the balance sheet. Depreciation has been provided over the estimated useful lives using the straight-line method of depreciation.

The estimated useful lives for each major class of depreciable fixed assets are as follows:

Buildings	40 years
Water systems	50 years
Equipment	5 - 7 years

No depreciation is provided on construction in progress until the asset is placed in service.

**D. CASH AND CASH EQUIVALENTS**

Cash includes amounts in demand deposits as well as short-term investments with a maturity date of three months or less.

*See Independent Auditors' Report*

**BEAR RIVER WATER CONSERVANCY DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2006 AND 2005**

**NOTE 2. DEPOSITS AND INVESTMENTS**

The State of Utah Money Management Council has the responsibility to advise the state treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state, and review the rules adopted under the authority of the State Money Management Act (the Act) that relate to the deposit and investment of public funds.

The District follows the requirement of the Act (*Utah Code*, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of District funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the state commissioner of financial institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

**A. DEPOSITS**

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. The District does not have a formal deposit policy for custodial credit risk. As of December 31, 2006, \$0 of the District's bank balances of \$10,632 was uninsured and uncollateralized. As of December 31, 2005, \$0 of the District's bank balances of \$22,430 was uninsured and uncollateralized.

**B. INVESTMENTS**

The Act defines the types of securities authorized as appropriate investments for the District and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers or directly with the issuers of the investment securities.

**BEAR RIVER WATER CONSERVANCY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2006 AND 2005**

**NOTE 2. DEPOSITS AND INVESTMENTS (Continued)**

Statutes authorize the District to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Service or Standards & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes and bonds; bonds, notes and other evidence of indebtedness of political subdivisions of the state; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined by the Act; and the Utah State Public Treasurer's Investment Fund.

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Act. The Act established the Money Management Council which oversees the activities of the state treasurer and the PTIF, and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains and losses, net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

The collateralized money market account is a pooled money market held in trust by Zions Bank. Amounts over FDIC insurance limits are pledged by Zions Bank and backed by investments in U.S. Government Treasuries, municipal bonds and government agency bonds.

*See Independent Auditors' Report*

**BEAR RIVER WATER CONSERVANCY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2006 AND 2005**

**NOTE 2. DEPOSITS AND INVESTMENTS (Continued)**

District investments consisted of the following at December 31, 2006:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturities</u> (Less than one year)	<u>Quality Rating</u>
State of Utah P.T.I.F.	\$ 485,794	\$ 485,794	Unrated
Collateralized money market	102,570	102,570	Unrated
Mutual fund - invested in			
U.S. Government Treasuries	<u>90,213</u>	<u>90,213</u>	AAA
	<u>\$ 678,577</u>	<u>\$ 678,577</u>	

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits and fixed rate corporate obligations of 270 to 365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding two years.

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's policy for reducing its exposure to credit risk is to comply with the Act as previously discussed. See the quality ratings on the investment schedules above.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a formal investment policy for custodial credit risk in regard to the custody of the District's investments.

*See Independent Auditors' Report*

**BEAR RIVER WATER CONSERVANCY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2006 AND 2005**

**NOTE 2. DEPOSITS AND INVESTMENTS (Continued)**

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's policy for reducing this risk of loss is to comply with the Rules of Money Management Council.

**NOTE 3. CAPITAL ASSETS**

The following is a summary of changes in capital assets during the fiscal year:

	December 31, 2005 <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	December 31, 2006 <u>Balance</u>
Capital assets not being depreciated:				
Work in process	\$ 326,242	\$ 194,156	\$ -	\$ 520,398
Land and water rights	<u>901,400</u>	<u>-</u>	<u>-</u>	<u>901,400</u>
Total capital assets not being depreciated	<u>1,227,642</u>	<u>194,156</u>	<u>-</u>	<u>1,421,798</u>
Capital assets being depreciated:				
Buildings and equipment	448,775	3,445	5,176	447,044
Water systems	<u>4,088,414</u>	<u>22,479</u>	<u>-</u>	<u>4,110,893</u>
Total capital assets being depreciated	<u>4,537,189</u>	<u>25,923</u>	<u>5,176</u>	<u>4,557,936</u>
Total capital assets at historical cost	5,764,831	220,079	5,176	5,979,734
Accumulated depreciation:				
Buildings and equipment	(152,040)	(21,181)	(5,176)	(168,045)
Water systems	<u>(729,687)</u>	<u>(85,920)</u>	<u>-</u>	<u>(815,607)</u>
Total accumulated depreciation	<u>(881,727)</u>	<u>(107,101)</u>	<u>(5,176)</u>	<u>(983,652)</u>
Business-type activities capital assets, net	<u>\$4,883,104</u>	<u>\$ 112,978</u>	<u>\$ -</u>	<u>\$4,996,082</u>

*See Independent Auditors' Report*

**BEAR RIVER WATER CONSERVANCY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2006 AND 2005**

**NOTE 4. INTEREST EXPENSE**

FASB 34 (Capitalization of Interest Costs) requires under certain circumstances that interest expenditures incurred during construction of assets be capitalized. During 2006 and 2005, no interest was capitalized because no loans were taken out for construction in either year. The total amount of interest incurred during 2006 and 2005 was \$32,462 and \$33,906, respectively.

**NOTE 5. RETIREMENT PLANS**

Defined Benefit Plan

*Plan Description*

The Bear River Water Conservancy District contributes to the Local Governmental Non-Contributory Retirement System Cost-Sharing Multiple-Employer Defined Benefit Pension Plan administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to Plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System, Local Governmental Non-Contributory Retirement System, Public Safety Retirement System for employers with (without) Social Security coverage and Firefighters Retirement System which are for employers with (without) Social Security coverage. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

*Funding Policy*

In the Local Governmental Non-Contributory Retirement System, the Bear River Water Conservancy District is required to contribute 11.090 percent for January 1, 2006, to June 30, 2006, and 11.590 percent for July 1, 2006, to December 31, 2006, of their annual covered salary. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

*See Independent Auditors' Report*

**BEAR RIVER WATER CONSERVANCY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2006 AND 2005**

**NOTE 5. RETIREMENT PLANS (Continued)**

The District's contributions to the Non-Contributory Retirement System for December 31, 2006, 2005 and 2004 were \$13,737, \$8,304 and \$6,751, respectively. The contributions were equal to the required contributions for each year.

401(k) Plan

*Plan Description*

The District participates in the 401(k) Plan, a contributory cost-sharing, multiple-employer defined contribution pension plan administered by the Utah State Retirement Systems (Systems). See the above for information and authority regarding the System. The Plan provides for retirement benefits.

*Funding Policy*

Bear River Water Conservancy District contributes 3.0 percent of the employee's base salary into the Plan. Employee contributions are optional within prescribed limits. Bear River Water Conservancy District's contributions for each employee (and interest allocated to the employees account) are fully vested upon deposit into the Plan.

Bear River Water Conservancy District's contributions totaled \$3,607, \$2,169 and \$1,782 for the years ended December 31, 2006, 2005 and 2004, respectively.

Participants contributed \$7,237, \$3,311 and \$1,810 for the years ended December 31, 2006, 2005 and 2004, respectively.

**NOTE 6. PROPERTY TAX**

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on June 15 and are due November 30.

*See Independent Auditors' Report*

**BEAR RIVER WATER CONSERVANCY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2006 AND 2005**

**NOTE 7. RESTRICTED ASSETS**

The cash and investments listed as restricted in the balance sheet are deposits and bond proceeds required to be spent on certain construction projects or bond sinking funds required to be accumulated.

The 2006 restricted assets also include impact fees and earned interest totaling \$29,154. This balance is required to be spent on the improvements and debt service specified in the initial impact fee study and enactment.

It is the District's policy to use restricted assets before unrestricted assets for allowable expenditures.

**NOTE 8. LONG-TERM DEBT**

Revenue Bonds Payable

The following is a summary of the District's revenue bonds at December 31, 2006:

\$1,470,000 Newman Well Bond Series 1995, due in annual installments of \$9,686 to \$72,936 through January 1, 2024, with interest at 1.30%.	\$ 1,027,000
\$681,000 Harper Ward Bond Series 1994, due in annual installments of \$698 to \$41,338 through January 1, 2021, with interest at .82%.	465,000
\$650,000 Bear River Water District Ukon Project Series 1995A, due in annual installments of \$2,785 to \$29,247 through March, 2021, with interest at .85%.	407,000
\$1,110,000 Water Bonds (Water Resources Board) Series 1995B, due in annual installments of \$33,100 to \$55,080 through March 1, 2026, with interest at 1.00%.	863,000

*See Independent Auditors' Report*



**BEAR RIVER WATER CONSERVANCY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2006 AND 2005**

**NOTE 8. LONG-TERM DEBT (Continued)**

\$210,000 Water Bonds Series 1999,  
 due in annual installments of \$1,321  
 to \$12,745 through January 1, 2020,  
 with interest at 1.50%.

\$ 143,000

Total revenue bonds payable 2,905,000  
 Current portion (143,000)

Total long-term revenue bonds payable \$ 2,762,000

All of the revenue bonds are secured by the District's annual operating revenue.

Changes in Long-Term Liabilities

During the year ended December 31, 2006, the following changes occurred in long-term liabilities:

*Business-Type:*

	December 31, 2005 <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	December 31, 2006 <u>Balance</u>	Due Within <u>One Year</u>
Deferred vacation payable	\$ -	\$ 5,890	\$ -	\$ 5,890	\$ -
Revenue bonds payable	<u>3,040,000</u>	<u>-</u>	<u>135,000</u>	<u>2,905,000</u>	<u>143,000</u>
Total	<u>\$ 3,040,000</u>	<u>\$ 5,890</u>	<u>\$ 135,000</u>	<u>\$ 2,910,890</u>	<u>\$ 143,000</u>

*See Independent Auditors' Report*

**BEAR RIVER WATER CONSERVANCY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2006 AND 2005**

**NOTE 8. LONG-TERM DEBT (Continued)**

Debt Service Requirements

The debt service requirements, including interest and principal, for long-term debt at December 31, 2006, are as follows:

*Business-Type:*

Year ending December 31:	Revenue Bonds	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 143,000	\$ 31,399
2008	147,000	29,855
2009	148,000	28,271
2010	152,000	26,675
2011	155,000	25,034
2012 - 2016	855,000	98,713
2017 - 2021	896,000	50,637
2022 - 2026	<u>409,000</u>	<u>10,825</u>
	<u>\$ 2,905,000</u>	<u>\$ 301,409</u>

The following is a summary of sinking fund requirements to maturity on the revenue bonds:

Year ending December 31:	1999 <u>Bond</u>
2007	\$ 1,220
2008	1,220
2009	-
	<u>\$ 2,440</u>

**NOTE 9. MANAGEMENT OF RISK**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters.

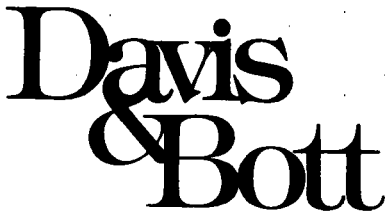
*See Independent Auditors' Report*

BEAR RIVER WATER CONSERVANCY DISTRICT  
NOTES TO FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2006 AND 2005

NOTE 9.   MANAGEMENT OF RISK (Continued)

All general liability, real property and all vehicles including heavy equipment, are insured through Utah Local Government Trust and a commercial policy (errors and omissions), and injuries to employees are insured through employees' workers compensation (additional assessments are not allowed). There have been no claims filed on the District's insurance coverage for any of the past three years. For insured programs, there have been no significant reductions in insurance coverage.

*See Independent Auditors' Report*



Certified Public Accountants, L.C.

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## REPORT ON LEGAL COMPLIANCE APPLICABLE TO UTAH STATE LAWS AND REGULATIONS

Board of Trustees  
Bear River Water Conservancy District  
Brigham City, UT 84302

We have audited the financial statements of the Bear River Water Conservancy District (the District) for the year ended December 31, 2006, and have issued our report thereon dated March 22, 2007. Our audit included test work on the District's compliance with those general compliance requirements identified in the State of *Utah Legal Compliance Audit Guide*, including:

- Public Debt
- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Truth in Taxation & Property Tax Limitations
- Special Districts
- Other General Compliance Issues
- Impact Fees

The District did not receive any major state grants during the year ended December 31, 2006.

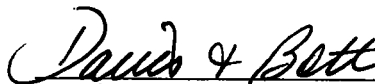
The management of the District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

Bear River Water Conservancy District  
Report on Legal Compliance Applicable to  
Utah State Laws and Regulations  
Page Two

The results of our audit procedures disclosed an immaterial instance of noncompliance with requirements referred to above, which is described in the accompanying management letter. We considered this instance of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

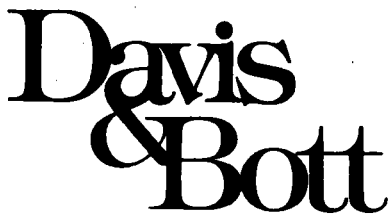
In our opinion, the Bear River Water Conservancy District complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2006.



Davis & Bott

Certified Public Accountants, L.C.

Brigham City, Utah  
March 22, 2007



Certified Public Accountants, L.C.

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**INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENTAL AUDITING STANDARDS**

Board of Trustees  
Bear River Water Conservancy District  
Brigham City, UT 84302

We have audited the financial statements of the Bear River Water Conservancy District (District) as of and for the year ended December 31, 2006, and have issued our report thereon dated March 22, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

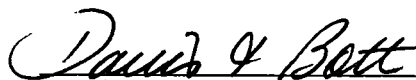
In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that we have reported to management of the Bear River Water Conservancy District in the letter of recommendations dated March 22, 2007.

Bear River Water Conservancy District  
Independent Auditors' Report on Internal  
Control Over Financial Reporting and on  
Compliance And Other Matters Based on an  
Audit of Financial Statements Performed  
in Accordance with *Governmental Auditing  
Standards*  
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we reported to management of the Bear River Water Conservancy District in the letter of recommendations dated March 22, 2007.

This report is intended solely for the information and use of the Board of Trustees, management and state agencies, and is not intended to be and should not be used by anyone other than these specified parties.



Davis & Bott  
Certified Public Accountants, L.C.

Brigham City, Utah  
March 22, 2007

*Supplementary Information*



BEAR RIVER WATER CONSERVANCY DISTRICT  
IMPACT FEE WORKSHEET (UNAUDITED)  
FOR THE YEAR ENDED DECEMBER 31, 2006

Impact fees balances at December 31,  
2005:

\$ 2,860

Total impact fees

2,860

Transactions during fiscal year  
ended December 31, 2006:

Impact fees received

25,740

Interest earned

554

Qualifying expenditures

-

Ending balance at December 31,  
2006

\$ 29,154

The District plans to use the Bothwell impact fee to service debt on the existing Bothwell systems.

*See Independent Auditors' Report*

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**BEAR RIVER WATER  
CONSERVANCY DISTRICT**

**Letter of Recommendations**

**December 31, 2006**

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**Davis  
& Bott**

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Board of Trustees  
Bear River Water Conservancy District  
Brigham City, UT 84302

We have audited the financial statements of Bear River Water Conservancy District for the year ended December 31, 2006, and have issued our report thereon dated March 22, 2007. As part of our examination, we made a study and evaluation of the District's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the District's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of Bear River Water Conservancy District is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Bear River Water Conservancy District  
Letter of Recommendations  
Page Two

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of Bear River Water Conservancy District taken as a whole.

However, our study and evaluation disclosed the following reportable or agreed-upon conditions that we believe result in a relatively low risk that errors or irregularities in amounts that would be material in relation to the financial statements of Bear River Water Conservancy District may occur and not be detected within a timely period.

CURRENT YEAR RECOMMENDATIONS

None

PRIOR YEAR RECOMMENDATIONS

Issue: Bear River Water Conservancy District has insufficient segregation of duties due to the small size of the entity.

Recommendation: We recommend that the District look at the cost versus the benefit of improving the segregation of duties.

District's Response: The District is too small to adequately segregate duties, but we will do what we can to safeguard assets.

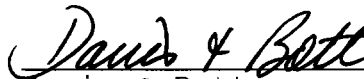
Current Status: Lack of segregation is a product of the organizational structure and limited staffing. This condition requires increased reliance on the integrity of existing staff and highlights the importance of thorough background checks for new hires. This condition continues, but there have been improvements made.

CONCLUSION

We wish to take this opportunity to express our thanks and appreciation for the courtesy and assistance extended to us by your personnel during our audit work.

Bear River Water Conservancy District  
Letter of Recommendations  
Page Three

We welcome the opportunity to discuss further any points mentioned herein. We feel that proper implementation of these suggestions will improve internal controls and protect the District's assets.



\_\_\_\_\_  
Davis & Bott  
Certified Public Accountants, L.C.

March 22, 2007  
Brigham City, Utah